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Lytton Minerals Limited

Incorporated under the laws of British Columbia

Directors J. L. CARPENTER
 H. R. FRASER
 Dr. J. B. HOWKINS
 E. A. KOBLANSKI
 Dr. S. P. OGRYZLO
 J. S. WARICK

Officers J. L. CARPENTER, President
 J. S. WARICK, Executive Vice-President
 K. S. DALTON, Treasurer
 C. K. TAYLOR, Q.C., Secretary

Head Office 1695 - 555 Burrard Street
 Vancouver, British Columbia

Stock Exchanges Montreal, Toronto and Vancouver

*Registrar and
Transfer Agent* Guaranty Trust Company of Canada,
 Toronto, Montreal and Vancouver

Auditors Deloitte, Haskins & Sells, Toronto

Solicitor Owen Bird, Vancouver

Cover *Part of the plan of the preliminary open-pit layout
 at La Verde*

Directors' Report

To the Members:

In 1974, Hudson Bay Mining and Smelting Co., Limited (Hudson Bay Mining) and Anglo American Corporation of Canada Limited (Amcan) jointly purchased from Patino, N.V., of The Hague, its 58.1 % interest in your Company, thereby becoming the principal and controlling shareholders. Subsequently that interest was increased to approximately 68 %.

Your Company's authorized capital was increased at the Annual and Special General Meeting of Members on March 14, 1975, by creating 2,000,000 additional Class A shares with no par value and 6,700 Class B 10 % cumulative redeemable preferred shares, par value \$1,000, and 3,300 Class C 9 % cumulative redeemable preferred shares each convertible into 572 Class A shares within 10 years, redeemable at the par value \$1,000. As a means of providing the funds to meet your Company's financial obligation for the La Verde project, Hudson Bay Mining and Amcan gave an undertaking to your Company to subscribe for all the Class B and Class C preferred shares.

In last year's Directors' Report, it was reported that with respect to your Company's 48 % in Compania Cuprifera La Verde, S.A. (La Verde), formerly Minas del Otono, S.A., Hudson Bay Mining, Amcan, your Company, the Mexican Government and a private Mexican company, Desc, Sociedad de Fomento Industrial, S.A. de C.V., had entered into a Bases of Agreement on October 29, 1974, which reflected the parties' intentions of developing the La Verde

deposits. At that time, previous feasibility studies had been updated and the total cost of the project, including advances already made by your Company, was estimated at \$101 million. This included working capital but was exclusive of any provision of interest on loan funds during pre-production. In addition, preparation for development of the property on the basis of mining two open pits and milling at the rate of 15,000 metric tons per day had commenced. It was estimated that the construction and development phases of the project would take three years and it was hoped construction would begin about mid-1975.

In preparing for the development of the property, however, it became obvious that the La Verde project would be adversely affected by the unprecedented inflationary conditions existing throughout the industrial world. As reported in August, 1975, in the interim Report to Members, quotations received for major plant and mining equipment indicated a substantial increase over earlier estimated capital costs. Excluding interest during construction, capital costs had increased to \$121.5 million with an attendant and unfavorable escalation of operating costs. In view of these cost increases and against the background of a continuing depressed copper market and a growing burden of copper inventories throughout the world, the Directors of La Verde decided to reassess the entire project.

Detailed studies were undertaken by the La Verde staff in co-operation with the engineering consultants,

Wright Engineers Limited, of Vancouver, and Ingenieria Panamericana S.A., of Mexico. Hudson Bay Mining and Amcan also participated in the co-ordination of the feasibility study as technical supervisors to the project. The feasibility submission was presented to the directors of La Verde in January, 1976.

Designs for both open pits showed a recovery of a diluted proven tonnage totalling 70,746,772 metric tons (78 million short tons) grading 0.64% copper, down from the previous estimate of 81.3 million short tons grading 0.699% because of a more rigorous interpretation of the original data. Based on the concept of the 15,000 metric-ton-per-day operation, the capital costs proved again to be unfavorably influenced by inflation. Nevertheless, with some modifications to plant and equipment, it was possible to achieve a revised estimate for capital cost approximately equal to the \$121 million previously communicated in the interim Report to Members in August, 1975. However, some improvements were expected in operating costs vis-a-vis the previous study.

Notwithstanding the containment of capital costs and the more favorable outlook for operating costs, the project's economic return has been adversely affected. Accordingly, the directors and shareholders of La Verde are again reassessing the project and a decision is expected in the near future.

Executive appointments

At the meeting of the Board held on February 18, 1976, H. A. McKenzie's resignation as President and a Director was accepted. He was replaced in both positions by J. L. Carpenter, Executive Vice-President of Hudson Bay Mining.

Dr. J. B. Howkins, Vice-President - Exploration of Hudson Bay Mining, was appointed a Director to succeed J. D. Taylor, Q.C., who resigned to accept a senior post in Johannesburg with Anglo American Corporation of South Africa Limited.

On behalf of the Board,

J. L. Carpenter
President

March 12, 1976

Lytton Minerals Limited

(Incorporated under the Laws of the Province of British Columbia)

Balance Sheet as at December 31, 1975 (with 1974 figures for comparison)

Assets	1975	1974
Current assets:		
Cash.....	\$ 431	\$ 250
Accounts receivable.....	19,045	3,292
Total current assets.....	<u>19,476</u>	<u>3,542</u>
Investments in other mining companies – at cost:		
Compania Cuprifera La Verde, S.A. formerly Minas del Otono, S.A. (Note 1):		
Shares and options.....	4,566,610	230,182
Advances and direct expenditures.....	430,457	3,858,705
Deas Lake Mines Ltd. (Note 2)		
Shares.....	139,472	139,472
Loans.....	197,211	193,797
Total investments in other mining companies.....	<u>5,333,750</u>	<u>4,422,156</u>
Deferred exploration and development expenditures on properties under investigation		
– less amounts written off.....	157,580	157,580
Total.....	<u>\$5,510,806</u>	<u>\$4,583,278</u>

Approved by the Board:

J. L. CARPENTER, Director

J. S. WARICK, Director

The accompanying notes are an integral part of the financial statements.

Liabilities and Shareholders' Equity	1975	1974
Current liabilities:		
Accounts payable:		
Trade.....	\$ 12,875	\$ 12,825
Affiliated company.....	—	43,071
Total current liabilities.....	<u>12,875</u>	<u>55,896</u>
Non-current liability:		
Advances from shareholders (noninterest bearing).....	<u>1,000,000</u>	<u>—</u>
Shareholders' equity:		
Capital stock (Note 3):		
Authorized – 7,000,000 Class A shares with no par value; 6,700 Class B 10 % cumulative preferred shares redeemable at par value of \$1,000; 3,300 Class C 9 % cumulative convertible preferred shares redeemable at par value of \$1,000.		
Issued and fully paid – 4,991,334 Class A shares.....	4,931,311	4,931,311
Deficit.....	<u>433,380</u>	<u>403,929</u>
Net shareholders' equity.....	<u>4,497,931</u>	<u>4,527,382</u>
TOTAL.....	<u><u>\$5,510,806</u></u>	<u><u>\$4,583,278</u></u>

Lytton Minerals Limited

Statement of Loss and Deficit for the year ended December 31, 1975 (with 1974 figures for comparison)

	1975	1974
Corporate and administrative expenses:		
Office and general.....	\$ 7,415	\$ 2,503
Transfer agent and listing fees.....	8,986	5,682
Professional fees.....	2,850	3,957
Rent.....	—	3,200
Loss for the year before write-offs.....	19,251	15,342
Exploration costs written off.....	10,200	6,230
Loss for the year.....	29,451	21,572
Deficit at beginning of the year.....	403,929	382,357
Deficit at end of the year.....	\$ 433,380	\$ 403,929
Loss per share.....	\$ 0.006	\$ 0.004

Statement of Changes in Financial Position for the year ended December 31, 1975 (with 1974 figures for comparison)

	1975	1974
Source of funds:		
Advances from shareholders.....	\$1,000,000	\$ —
Application of funds:		
To operations:		
Loss for the year before write-offs.....	19,251	15,342
Investment in Compania Cuprifera La Verde, S.A. formerly Minas del Otono, S.A.	908,180	46,159
Loans to Deas Lake Mines Ltd.....	3,414	—
Exploration and development expenditures.....	10,200	6,230
Total funds applied.....	941,045	67,731
Increase (decrease) in working capital for the year.....	58,955	(67,731)
Working capital (deficiency) at beginning of the year.....	(52,354)	15,377
Working capital (deficiency) at end of the year.....	\$ 6,601	\$ (52,354)

The accompanying notes are an integral part of the financial statements.

Lytton Minerals Limited

Notes to the Financial Statements December 31, 1975

1. **Compania Cuprifera La Verde, S.A., formerly Minas del Otono, S.A.**

Compania Cuprifera La Verde, S.A., (La Verde), a Mexican corporation, is planning to develop certain mining properties (the La Verde deposit) in the State of Michoacan, in the Republic of Mexico. In 1973, the Company acquired all of the Class B shares representing 49% of the issued capital of Minas del Otono, S.A. and retained the right to designate the ownership of the remaining 50.5%, 0.5% having been committed.

On October 29, 1974, the Company and its principal shareholders (Hudson Bay Mining and Smelting Co., Limited and Anglo American Corporation of Canada Limited), entered into an agreement with the Mexican Government and a private Mexican industrial holding company for the development and financing of the La Verde deposit. Under the terms of the agreement, Minas del Otono, S.A. was reorganized in 1975 to become Compania Cuprifera La Verde, S.A. in which the Company holds an equity interest of approximately 47.5%, the balance being shared between the Mexican Government and the private Mexican industrial holding company. The Company is required in the future to offer for sale to the Mexican public an 8% interest in La Verde out of its holding.

La Verde's authorized capital consists of 7,500,000 shares with a par value of 50 pesos each of which the Company is the beneficial owner of 3,561,000 shares. The Company's investment represents approximately 52,000,000 pesos paid to date, or approximately 29% of the par value of its shares. During 1975 the other shareholders have similarly paid 29% owing on their shares. The remaining 71% is subject to call at any time by the Board of Directors of La Verde.

In the course of proceeding with the capitalization of La Verde, a portion of the Company's investment will be capitalized in connection with which certain Mexican taxes may become payable, the precise amount of which is subject to settlement with the appropriate Mexican authorities.

La Verde is still in the exploration and development stage and, accordingly, all costs incurred to date have been deferred; the cost of the Company's investment is approximately equal to its equity in the net assets of La Verde.

2. **Deas Lake Mines Ltd.**

Deas Lake Mines Ltd. is still in the exploration stage and has had no significant income or expenses. Its only assets are deferred exploration and development expenditures; there have been no exploration activities since 1968.

The investment in shares represents a 44% interest in the company. Exploration of the property has been financed by loans from the Company and Mitsui Mining & Smelting Co. Limited which holds an equal interest in the project. Since the loans (including interest at 6%) are repayable out of profits, no interest has been accrued by the Company.

3. **Capital Stock**

At the Annual and Special General Meeting of Shareholders held on March 14, 1975, the authorized capital of the Company was increased as follows:

- (a) By creating 2,000,000 additional Class A shares with no par value.
- (b) By creating 6,700 Class B 10% cumulative preferred shares, redeemable at the par value of \$1,000.
- (c) By creating 3,300 Class C 9% cumulative preferred shares each convertible into 572 Class A shares within ten years, redeemable at the par value of \$1,000.

The Company has received an undertaking from its majority shareholders, Anglo American Corporation of Canada Limited and Hudson Bay Mining and Smelting Co., Limited, to subscribe equally for all the Class B and Class C preferred shares so created at such times as the Directors decide to issue such shares.

Auditors' Report

To the Shareholders of Lytton Minerals Limited:

We have examined the balance sheet of Lytton Minerals Limited as at December 31, 1975, and the statements of loss and deficit and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

The financial statements of Compania Cuprifera La Verde, S.A., were reported upon by other accountants and our opinion insofar as it relates to the Company's investment therein, as described in Note 1 to the financial statements, is based solely upon their report. Such report indicated that the company was still in the exploration and development stage and, that in the opinion of the other accountants, the recovery of the costs incurred to date by that company was conditional upon the commencement of an economic exploitation of the La Verde copper deposit.

In our opinion, based upon our examination and the report of other accountants, and subject to the commencement of an economic exploitation of the La Verde copper deposit, these statements present fairly the financial position of the Company as at December 31, 1975, and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
March 5, 1976

DELOITTE, HASKINS & SELLS
Chartered Accountants

